

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF GEM STATE WATER ) CASE NO. GSW-W-19-01**  
**COMPANY, LLC’S APPLICATION FOR )**  
**APPROVAL OF ACQUISITION OF THE ) ORDER NO. 34616**  
**ASSETS OF THE WATER BUSINESS OF )**  
**HAPPY VALLEY WATER SYSTEM INC. )**  
**AND BITTERROOT WATER CO., INC. )**

On November 18, 2019, Gem State Water Company, LLC (“Gem State Water” or “Company”) applied to the Commission for approval of its acquisition of the water business assets of Happy Valley Water System, Inc. (“Happy Valley”) and Bitterroot Water Co., Inc. (“Bitterroot”). The Company also asked for approval to transfer Happy Valley and Bitterroot’s certificates of public convenience and necessity (CPCN) to Gem State Water.

On December 27, 2019, the Commission issued a Notice of Application and a Notice of Modified Procedure, setting comment deadlines. Order No. 34516. Commission Staff filed comments, and Gem State Water filed reply comments.

On March 4, 2020, the Commission deliberated on the fully submitted case. During the deliberation, the Commission noted Happy Valley and Bitterroot had not yet notified their customers about the proposed acquisitions. The Commission declined to issue a final order until the record reflected that the customers of Happy Valley and Bitterroot had been notified of the proposed acquisitions and been given an opportunity to comment.

On March 5, 2020, notice of the proposed acquisitions was mailed by Gem State Water to the customers of Happy Valley and Bitterroot.

On March 10, 2020, the Commission issued a Notice setting a March 23, 2020 comment deadline and a March 27, 2020 reply comment deadline. Order No. 34579. No additional comments were received. Gem State Water notified Staff on March 23, 2020 that it would not file reply comments.

Having reviewed the record, we approve the acquisition of Happy Valley and Bitterroot by Gem State Water and approve the transfer of the purchased water companies’ CPCNs.

**THE APPLICATION**

Gem State Water is an Idaho limited liability company created to own and operate water utilities in Idaho. Gem State Water, through its parent companies, is owned by Northwest

Natural Holding Company. In its Application, Gem State Water stated the transfer of ownership will not result in a change to Happy Valley and Bitterroot's rates. Happy Valley is a regulated water utility that services approximately 27 residential customers in north Idaho. Bitterroot is a regulated water utility that services approximately 160 residential customers in north Idaho. The same persons own Happy Valley and Bitterroot.

## THE COMMENTS

### 1. Staff Comments

Staff recommended the Commission approve the sale of Happy Valley and Bitterroot to Gem State Water, and that Happy Valley and Bitterroot's CPCNs be transferred to the Company. Staff noted Idaho law does not specifically address the acquisition of water companies, but that it would rely on the statute governing sales of electric utilities—*Idaho Code* § 61-328—to analyze the transaction. *Idaho Code* § 61-328 requires the Commission to find a) the transaction is consistent with the public interest, b) the cost of the rates for supplying service will not be increased by reason of such transaction, and c) the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain the system in the public interest.

Staff believes the sale of Happy Valley and Bitterroot to Gem State Water is consistent with the public interest. Staff noted Gem State Water's continued acquisition of companies in Idaho may provide benefits through operational efficiencies and economies of scale.

Staff stated the Company will maintain Happy Valley and Bitterroot's existing rates and charges after the acquisition. When the Company files a general rate case, Staff stated "it will ensure that the requested rate increase was not driven by the transaction, and that rates will not be higher than they would have been absent the transaction." Staff Comments at 4.

Finally, Staff believes Gem State Water has the bona fide intent and financial ability to operate and maintain Happy Valley and Bitterroot's water systems in the public interest. The Company's general manager, Leslie Rayner, is an experienced water operator with whom Staff has worked in the past. Staff also noted Gem State Water's parent company, Northwest Natural Holdings, "has the necessary access to capital markets to proactively address Happy Valley and Bitterroot's infrastructure needs in a timely manner at a competitive cost." Staff Comments at 4.

As part of its review of the acquisition, Staff discovered the asset purchase agreement contained an erroneous parcel number. Gem State Water agreed the parcel number was erroneous and provided the correct parcel number. Also, Staff discovered a System Disapproval letter from

Idaho Department of Environmental Quality (IDEQ) for the Bitterroot system. Gem State Water is aware of the System Disapproval letter and has been in contact with IDEQ on the subject. Staff believes Gem State Water is proactively addressing the issue, and that IDEQ's disapproval of Bitterroot's water system should not affect the acquisition.

Staff made several recommendations if the Commission approves the Company's acquisition of Happy Valley and Bitterroot, but ultimately recommended approval of the acquisition.

2. *The Company's Reply Comments*

The Company's Reply Comments agreed with Staff Comments. In particular, Gem State Water addressed the IDEQ System Disapproval letter, stating it is "confident that [the Company] will promptly address IDEQ's concerns, and appreciates [Staff's] conclusion that these issues should not affect the acquisition." Company Reply Comments at 1.

**COMMISSION FINDINGS AND DECISION**

The Commission has jurisdiction over this matter and the issues in this case under Title 61 of the Idaho Code. Specifically, the Commission regulates "public utilities," including "water corporations" that serve the public or some portion thereof for compensation. *See Idaho Code* §§ 61-125, -129, and -501. The Commission has an established practice of evaluating the transfer of water systems under the criteria found in *Idaho Code* § 61-328. Happy Valley and Bitterroot are privately held water companies and public utilities as defined in these laws. Having reviewed the record, we find the acquisition fair, just, reasonable, and in the public interest. Consequently, we approve the Application.

Gem State Water will provide organizational support, access to capital, and economies of scale for the systems it purchases. It is in the public interest for an experienced owner and operator of public utility infrastructure to acquire these systems. Gem State Water has demonstrated the financial ability and bona fide intent to operate the system in the public service. Northwest Natural Holdings, of which Gem State Water is a wholly-owned subsidiary, has a \$400 million revolving line of credit, a net income of \$64.5 million, cash flow from operations of \$168.8 million, an A2 credit rating from Moody's, and an AA- credit rating from Standard and Poor's. Staff Comments at 4. The bona fide intent to operate the system in the public service is demonstrated by Gem State Water's plans to develop a water master plan upon approval and closing of the transaction, and the Company's strategic plan to purchase and operate multiple small

water companies in the region. Finally, customer rates will not increase because of the transaction. Any further rate increases will be the result of prudent expenditures to improve the respective systems.

We direct Gem State Water to notify Happy Valley and Bitterroot's customers directly of the acquisitions. This notice may be a separate mailing, a message on bills, or a bill insert. We also direct the Company to work with Staff to make any necessary revisions to its customer documents within three months of the service date of this Order.

### **ORDER**

IT IS HEREBY ORDERED that Gem State Water's Application is approved.

IT IS FURTHER ORDERED that CPCN No. 390 of Happy Valley and CPCN No. 319 of Bitterroot are transferred to Gem State Water.

IT IS FURTHER ORDERED that Gem State Water notify Happy Valley and Bitterroot customers of the sale of Happy Valley and Bitterroot to Gem State Water, either through a separate mailing, a message on bills, or as a bill insert.

IT IS FURTHER ORDERED that Gem State Water work with Staff to make any necessary revisions to its customer documents within three months of the service date of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 2nd day of April 2020.

  
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PAUL KJELLANDER, PRESIDENT

  
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KRISTINE RAPER, COMMISSIONER

  
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ERIC ANDERSON, COMMISSIONER

ATTEST:

  
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Diane M. Hanian  
Commission Secretary

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